

REPORT OF EXAMINATION  
OF THE  
REHAK ASSOCIATES MOBILE SERVICES, INC.  
(DBA: RAM HOME WARRANTY)  
AS OF  
DECEMBER 31, 2003

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Los Angeles, California  
March 4, 2004

Honorable John Garamendi  
Insurance Commissioner  
California Department of Insurance  
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

REHAK ASSOCIATES MOBILE SERVICES, INC.  
(DBA: RAM HOME WARRANTY)

(hereinafter also referred to as the Company) at its home office located at 27570 Commerce Center Drive, Suite 220, Temecula, California 92592.

#### SCOPE OF EXAMINATION

The previous examination of the Company was made as of December 31, 1998. This examination covers the period from January 1, 1999 through December 31, 2003. The examination included a review of the Company's practices and procedures, an examination of management records, tests and analyses of detail transactions during the examination period, and an evaluation of assets and a determination of liabilities as of December 31, 2003, as deemed necessary under the circumstances.

In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: company history; fidelity bonds and other insurance; growth of company; loss experience; officers', employees' and agents' welfare and pension plans; accounts and records; and sales and advertising.

## MANAGEMENT AND CONTROL

The Company is owned by John M. Mazurkewitz and Melinda Mazurkewitz, husband and wife.

The Company is managed by a two-member board of directors. A listing of the board of directors and principal officers serving at December 31, 2003 follows:

### Directors

<u>Name and Residence City</u>	<u>Principal Business Affiliation</u>
John M. Mazurkewitz Temecula, California	President RAM Home Warranty
Melinda Mazurkewitz Temecula, California	Secretary and Treasurer RAM Home Warranty

### Principal Officers

<u>Name</u>	<u>Title</u>
John M. Mazurkewitz	President
Melinda Mazurkewitz	Secretary and Treasurer

### Management Agreement

Since the Company does not have any direct employees, the Company has a business management agreement with Advantage Services, which is owned by John Mazurkewitz. The agreement authorizes Advantage Services to provide full management services to the Company on a cost reimbursement basis. For management services provided the fees paid Advantage Services in 1999, 2000, 2001, 2002, and 2003 were \$776,112, \$847,423, \$1,587,305, \$1,835,030, and \$1,914,484, respectively.

## CORPORATE RECORDS

The Company's board actions regarding the authorization and approval of investments did not satisfy the requirements of California Insurance Code (CIC) Sections 1200 and 1201. The Company's minutes failed to document the authorization or approval of its investments, which is in violation of CIC Section 1200. In addition, specific references to amounts, facts and the values of the securities were not included as required under CIC Section 1201. It is recommended that the Company implement procedures to ensure future compliance with CIC Sections 1200 and 1201.

## TERRITORY AND PLAN OF OPERATION

The Company is licensed to transact home protection business only in the State of California. The Company writes business in the counties of Los Angeles, Orange, Riverside, San Bernardino, San Diego, Kern, Imperial, Santa Barbara, and Ventura.

The Company's contract fees written increased from \$3,406,173 in 1999 to \$5,346,134 in 2003. The Company issues home protection contracts to the owners of single family housing, mobile homes and multiple unit housing. The contract obligates the Company to repair or replace covered items during the contract period for the following systems: heating, plumbing, electrical, appliances including most built-ins, water heater, garage door opener and pest control. For an additional charge, the Company offers coverage for: central air conditioning (electric only), pool and spa equipment, washer, dryer, refrigerator, and limited roof repair coverage.

## REINSURANCE

The Company does not have any reinsurance assumed or ceded.

## FINANCIAL STATEMENTS

The financial statements prepared for this examination report include the following:

Statement of Financial Condition as of December 31, 2003;

Underwriting and Investment for the Year Ended December 31, 2003;

Reconciliation of Surplus as Regards Contractholders  
from December 31, 1998 through December 31, 2003;

Statement of Financial Condition  
as of December 31, 2003

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 2,109,327	\$ 2,109,327	(1)
Stocks: Preferred stocks	126,000	126,000	(1)
Stocks: Common stocks	23,802	23,802	(1)
Mortgage loans on real estate:			
First liens	230,318	230,318	
Cash and short-term investments	1,916,193	1,916,193	
Home protection contract fees receivable	100,190	100,190	
Total assets	<u>\$ 4,505,830</u>	<u>\$ 4,505,830</u>	
<u>Liabilities, Surplus and Other Funds</u>			
Losses		\$ 50,309	
Loss adjustment expenses		5,556	
Other expenses		21,030	
Taxes, licenses and fees		17,551	
Federal and foreign income taxes		165,532	
Unearned premiums		<u>2,138,454</u>	
Total liabilities		2,398,432	
Common capital stock	\$ 40,740		
Unassigned funds (surplus)	<u>2,066,658</u>		
Surplus as regards contractholders		<u>2,107,398</u>	
Total liabilities, surplus and other funds		<u>\$ 4,505,830</u>	

Underwriting, and Investment Exhibit  
for the Year Ended December 31, 2003

Underwriting Income

Home protection contract fees earned \$ 5,047,417

Deductions:

Claims incurred \$ 2,193,766

Claims service expenses incurred 1,374,008

Other expenses incurred 1,455,391

Total deductions 5,023,165

Net underwriting gain 24,252

Investment Income

Net investment income earned 149,314

Other Income

Trade call fees, inspections and miscellaneous 426,343

Net income before federal income taxes 599,909

Federal income taxes incurred 200,612

Net income \$ 399,297

Capital and Surplus Account

Surplus as regards contractholders, December 31, 2002 \$ 1,708,101

Net income \$ 399,297

Change in surplus as regards policyholders 399,297

Surplus as regards contractholders, December 31, 2003 \$ 2,107,398



Reconciliation of Surplus as Regards Contractholders  
from December 31, 1998 through December 31, 2003

Surplus as regards contractholders, December 31, 1998, per Examination			\$ 508,382
	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>	
Net income	\$ 1,644,743	\$	
Change in nonadmitted assets	580		
Capital changes: Paid in		40,000	
Prior years federal income taxes paid		<u>6,307</u>	
Totals	<u>\$ 1,645,323</u>	<u>\$ 46,307</u>	
Increase in surplus as regards contractholders			<u>1,599,016</u>
Surplus as regards contractholders, December 31, 2003, per Examination			<u>\$ 2,107,398</u>

## COMMENTS ON FINANCIAL STATEMENT ITEMS

### (1) Bonds and Stocks

The Company included a bond portfolio of \$2,109,327 and a stock portfolio of \$149,802 being held by various brokerage houses. Brokers may not serve as a qualified custodian, qualified subcustodian, or qualified depository pursuant to California Insurance Code (CIC) Section 1104.9. It is recommended that the Company transfer its securities to a custodian that meets the requirements of CIC Section 1104.9.

## SUMMARY OF COMMENTS AND RECOMMENDATIONS

### Current Report of Examination

Corporate Records - (Page 3): It is recommended that the Company comply with California Insurance Code Section 1200 and 1201.

Bonds and Stocks (Page 13): The Company does not have a qualified custodian as defined under California Insurance Code Section 1104.9. It is recommended that the Company transfer its securities to a custodian that meets the requirement California Insurance Code Section 1104.9.

### Prior Report of Examination

Corporate Records - (Page 3): It was recommended that the Company comply with California Insurance Code Section 735. The Company is now in compliance.

## ACKNOWLEDGMENT

The courtesy and cooperation extended by the officers and employees of the Company during the course of this examination is acknowledged.

Respectfully submitted,

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James Jimenez  
Examiner-in-Charge  
Associate Insurance Examiner  
Department of Insurance  
State of California